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S E C R E T SECTION 1 OF 5 USNATO 3043

E.O. 11652: GDS

TAGS: ENGR, PFOR, FR, NATO

SUBJECT: REPORT TO THE NATO MINISTERS ON SITUATION IN THE
MEDITERRANEAN (MED REPORT)

REF: USNATO 2975

HEREWITH THE TEXT OF C-M(74)18 (REVISED), REPORT OF THE
SITUATION IN THE MEDITERRANEAN. IT IS SCHEDULED TO BE
CONSIDERED BY THE COUNCIL ON JUNE 5, AND WHEN APPROVED WILL
APPEAR ON THE AGENDA FOR JUNE NAC MINISTERIAL. UNLESS
INSTRUCTED TO THE CONTRARY MISSION WILL OFFER NO OBJECTION
TO JUNE 5 COUNCIL APPROVAL.

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DEVELOPMENTS IN THE MEDITERRANEAN
DECEMBER 1973-MAY 1974

1. AT THEIR LAST MEETING IN BRUSSELS, ON 10TH AND

11TH DECEMBER 1973, MINISTERS NOTED THE REPORT ON THE SITUATION IN THE MEDITERRANEAN (C-M(73)117(REVISED)) WHICH HAD BEEN PREPARED ON THEIR INSTRUCTIONS BY THE COUNCIL IN PERMANENT SESSION. IN PARAGRAPH 5 ON THE MINISTERIAL COMMUNIQUE, MINISTERS INVITED THE COUNCIL IN PERMANENT SESSION TO CONTINUE TO KEEP THE SITUATION UNDER REVIEW AND TO REPORT TO THEM AGAIN AT THEIR NEXT MEETING.

2. IN ACCORDANCE WITH THESE INSTRUCTIONS, THE COUNCIL IN PERMANENT SESSION ARRANGED FOR THE FOLLOWING REPORT TO BE PREPARED ON THE SITUATION IN THE MEDITERRANEAN. THIS REPORT SHOULD BE REGARDED AS PART OF THE CONTINUING REVIEW OF, AND CONSULTATION ON, THE SITUATION IN THE MEDITERRANEAN. IN VIEW OF THE FLUIDITY OF THE SITUATION, HOWEVER, THE SURVEY HAS FOCUSED ON THE OUTSTANDING EVENTS AND ON THE GENERAL TREND OF DEVELOPMENTS, AS IT AFFECTS THE ALLIANCE.

I. SIGNIFICANT EVENTS IN THE POLITICAL, MILITARY AND ECONOMIC SPHERES

A. POLITICAL

EGYPT

3. PRESIDENT SADAT IN GAINING INCREASING PUBLIC SUPPORT. HE HAS CROSSED SWORDS WITH THE INFLUENTIAL HASSANAN HEYKAL WHO HAS BEEN DISMISSED FROM HIS POST AS EDITOR OF "AL AHRAH". THE DOWNFALL OF HEYKAL IS THOUGHT TO BE DUE TO HIS CRITICISM OF THE PRESENT TREND OF EGYPTIAN FOREIGN POLICY.

4. AT THE END OF JANUARY, MR. FAHMI, THE NEW FOREIGN MINISTER, PAID AN OFFICIAL VISIT TO MOSCOW, PROBABLY WITH A VIEW TO EASING THE USSR'S ANNOUNCE AT THE OVERLY INDEPENDENT LINE ADOPTED BY CAIRO AND THE REDUCED ROLE MOSCOW HAS BEEN OBLIGED TO PLAY IN THE MIDDLE EAST NEGOTIATIONS. THE TEMPERATURE OF SOVIET-EGYPTIAN RELATIONS NONETHELESS DROPPED AGAIN THEREAFTER DESPITE GROMYKO'S VISIT TO CAIRO EARLY IN MARCH. WHILE MOVING
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AHEAD ON A RAPPROACHEMENT WITH THE UNITED STATES, HOWEVER, EGYPT HAS BEEN CAREFUL TO KEEP ITS DIFFERENCES WITH THE USSR WITHIN BOUNDS AND SADAT HAS PUBLICALLY STATED HIS DESIRE TO FOLLOW A BALANCED POLICY BETWEEN THOSE TWO POWERS.

LIBYA

5. THE SURPRISE ANNOUNCEMENT THAT LIBYA AND TUNISIA WERE TO BE UNIFIED HAS NOT BEEN FOLLOWED UP BY ANY IMPLEMENTARY MEASURE. ON THE CONTRARY, PRESIDENT BOURGUIBA AND SOME OF HIS ADVISORS APPEAR TO HAVE HAD SECOND THOUGHTS. IMMEDIATELY AFTER THE ANNOUNCEMENT PRESIDENT BOURGUIBA DISMISSED MR. MASMOUDI, HIS FOREIGN MINISTER, WHO HAD APPARENTLY BEEN THE ARCHITECT OF THE

AGREEMENT. IT HAS BEEN STATED THAT THE AGREEMENT OF MOROCCO AND ALGERIA TO THE UNIFICATION WOULD BE SOUGHT, AND THIS PROBABLY MEANS THAT IT HAS BEEN POSTPONED SINE DIE. ALTHOUGH THE PROJECT FOR FULL UNION BETWEEN EGYPT AND LIBYA HAS BEEN SHELVED, THE SPLIT WHICH DEVELOPED BETWEEN THEM AS A RESULT OF THE OCTOBER WAR WAS IN PART REPAIRED DURING GADAFY'S VISIT TO CAIRO IN FEBRUARY. IT WAS NOT LONG HOWEVER, BEFORE RELATIONS BETWEEN TRIPOLI AND CAIRO HAD AGAIN DETERIORATED. THUS, AT THE END OF MARCH, GADAFY ANNOUNCED THAT LIBYA NO LONGER FELT BOUND BY THE COMMITMENT INTO WHICH IT HAD ENTERED IN CONJUNCTION WITH SAUDI ARABIA AND KUWAIT, AT THE SUMMIT MEETING IN KHARTOUM, TO HELP EGYPT FINANCIALLY.

6. IN APRIL GADAFY CEASED TO EXERCISE HIS POLITICAL AND CEREMONIAL DUTIES WHICH WERE TRANSFERRED TO THE PRIME MINISTER, MAJOR JALLOUD. IN REALITY, HE DOES NOT APPEAR TO HAVE BEEN RELEGATED TO THE SIDELINES, SINCE HE REMAINS HEAD OF THE ARMY AND OF THE COUNCIL OF THE REVOLUTION. IT WILL BE RECALLED THAT THIS IS NOT THE FIRST CASE OF DISAGREEMENT BETWEEN THE TWO MEN AND THAT JALLOUD'S TRAVELS TO VARIOUS EUROPEAN CAPITALS IN THE EARLY SPRING APPEAR TO HAVE BEEN MOTIVATED BY THE DESIRE TO SHAPE A MORE NUANCED ROLE FOR LIBYA'S FOREIGN POLICY. FURTHER, LIBYA HAS ESTABLISHED DIPLOMATIC RELATIONS WITH ROMANIA. JALLOUD'S VISIT TO THE SOVIET UNION IN MID-MAY MARKED AN ATTEMPT BY THE SOVIET UNION TO REGAIN SOME OF THE GROUND LOST IN ITS MIDDLE EAST POSITION; AND, FOR ITS PART, LIBYA DOUBTLESS SAW IN THIS A MEANS OF REINFORCING ITSELF AFTER THE DETERIORATION OF ITS RELATIONS WITH EGYPT. HOWEVER, THE SUDDEN REAPPROCHEMENT, WHILE MUTUALLY SECRET

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CONVENIENT, PROBABLY LACKS A BASIS FOR PERMANENCE.

ALGERIA

7. SINCE THE OCTOBER WAR, PRESIDENT BOUMEDIENNE HAS BEEN PLAYING AN INCREASINGLY ACTIVE ROLE BOTH IN THE NON-ALIGNMENT CONTEXT AND IN CONSULTATION AMONG THE ARAB GOVERNMENTS.

ISRAEL

8. AT THE TIME OF THE DECEMBER 1973 ELECTIONS, THE PARTIES OF THE GOVERNING COALITION WERE BEING CRITICIZED FOR THE HANDLING OF EVENTS SURROUNDING THE OCTOBER WAR AND THEY LOST SOME GROUND TO THE TIGHTIST OPPOSITION. ALTHOUGH THE GOVERNMENT'S SUBSEQUENT DECISION TO SIGN THE DISENGAGEMENT AGREEMENT WITH EGYPT RECEIVED GENERAL SUPPORT, THE NEW GOVERNMENT WHICH MRS. MEIR FINALLY SUCCEEDED IN FORMING AFTER LENGTHY NEGOTIATIONS MET WITH WIDE-SPREAD CRITICISM FROM THE PUBLIC AND IN POLITICAL CIRCLES BASED ON THE INTERIM REPORT OF THE COMMISSION ESTABLISHED TO INVESTIGATE THE GOVERNMENT'S PREPAREDNESS FOR AND CONDUCT OF THE WAR. MRS. MEIR THEN DECIDED TO STEP DOWN AND MR. RABIN - CHIEF - OF-STAFF AT THE TIME OF THE SIX DAY WAR AND SUBSEQUENTLY AMBASSADOR TO

WASHINGTON WAS CHOSEN TO SUCCEED HER. THE FORMATION OF A COALITION GOVERNMENT COMPRISING THE PARTIES WHICH ARE PREPARED TO MAKE THE NECESSARY CONCESSIONS IN THE PEACE NEGOTIATIONS, HAS PROVED TO BE NO EASY TASK.

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9. IN COMPLIANCE WITH SECURITY COUNCIL REGULATION 338, THE PEACE CONFERENCE OPENED IN GENEVA ON 21ST DECEMBER 1973 WITH A MEETING OF THE FOREIGN MINISTERS OF ISREAL, EGYPT, JORDAN, THE UNITED STATES AND THE SOVIET UNION UNDER THE CHAIRMANSHIP OF THE SECRETARY GENERAL OF THE UNITED NATIONS. TO DATE SYRIA HAS REFUSED TO TAKE PART. THE UNITED STATES AND THE USSR WILL ACT AS CO-CHAIRMEN FOR THE TALKS AHEAD. AN AGREEMENT WAS REACHED ON 18TH JANUARY 1974 BETWEEN EGYPT AND ISRAEL CONCERNING THE DISENGAGEMENT OF THEIR FORCES. THIS AGREEMENT WAS INITIALLED BY THE REPRESENTATIVES OF EGYPT AND ISRAEL AS WELL AS THE UNITED NATIONS REPRESENTATIVE PRESENT. IT IS CONSIDERED BY THE PARTIES AS PART OF AN OVERALL SEETLEMENT. UNDER THIS AGREEMENT, WHICH ENTAILED CONCESSIONS ON BOTH SIDES, EGYPT REGAINED CONTROL OF THE CANAL AND THE ISRAELI TROOPS WITHDREW TO JUST WEST OF THE SIANI PASSES, THE TWO SIDES BEING SEPARATED BY THE UNITED NATIONS EMERGENCY FORCE. SERIOUS PROBLEMS HAVE

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HINDERED THE CONCLUSION OF A SIMILAR AGREEMENT BETWEEN SYRIA AND ISRAEL ON THE GOLAN FRONT WHERE MILITARY ACTIVITY AT TIMES THREATENED FULL SCALE CONFLICT. INTENSIVE DIPLOMATIC ACTIVITY IN SEARCH OF A COMPROMISE SOLUTION ENSURED, INVOLVING, APART FROM THE BELLIGERENTS, THE UNITED STATES, EGYPT AND, ALBEIT BEHIND THE SCENES, THE SOVIET UNION.

B. MILITARY

SOVIET MILITARY PRESENCE IN THE AREA

10. THE SOVIET MEDITERRANEAN SQUADRON CONTINUES TO BE THE MAIN SOVIET MILITARY PRESENCE IN THE AREA. AFTER REACHING A PEAK OF ABOUT 95 SHIPS IN OCTOBER/NOVEMBER 1973, THE SQUADRON HAS BEEN PROGRESSIVELY REDUCED IN SIZE. THE STRENGTH OF THE SQUADRON HAS REACHED APPROXIMATELY ITS PRE-OCTOBER WAR FIGURE. THE CURRENT OPERATIONS OF THE SQUADRON CONFORM TO THOSE OVER THE PAST YEAR. IT IS OF NOTE THAT THE NUMBER OF SUBMARINES HAS VARIED BETWEEN 11 AND 15 OVER THE PERIOD - A SLIGHT AVERAGE INCREASE OVER THE CORRESPONDING PERIOD OF 1973.

11. THE SURFACE-TO-SURFACE MISSILE (SS-1 SCUD) WAS REPORTED IN EGYPT TOWARDS THE END OF THE OCTOBER WAR. IT IS ESTIMATED THAT THESE WEAPONS REMAIN IN THE COUNTRY UNDER SOVIET CONTROL. IN OUR BEST JUDGEMENT THEY DO NOT HAVE NUCLEAR WARHEADS. FOLLOWING PRESIDENT'S ASSAD'S VISIT TO MOSCOW, SYRIA WAS SCHEDULED TO RECEIVE THE SCUD MISSILE WHICH WE BELIEVE HAS NOW ARRIVED.

12. THE REPORTED DEPLOYMENT BY THE SOVIET UNION TO CAIRO WEST OF ONE MIG-25 FOXBAT SQUADRON PROTECTED BY ONE SA-6 BATTALION, IF CONFIRMED, COULD INCREASE THE SOVIET RECONNAISSANCE CAPABILITY. IT WAS REPORTED THAT MIG-23 FLOGGER AIRCRAFT HAS BEEN DEPLOYED BY THE SOVIET UNION TO EGYPT BUT RECENTLY THESE REPORTS HAVE BEEN DENIED BY CERTAIN ALLIED SOURCES. THERE ARE INDICATIONS THAT MIG-23 AIRCRAFT ARE ALREADY IN SYRIA AND THAT SOVIET PILOTS ARE TRAINING SYRIAN ON THEM; THERE HAVE BEEN UNSUBSTANTIATED REPORTS OF RECONNAISSANCE TYPE MIG-25 AIRCRAFT FLOWN BY SOVIET PILOTS.

SOVIET EXPORT OF ARMS

13. ALL OF THE MILITARY EQUIPMENT LOST BY THE ARAB COUNTRIES
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DURING THE OCTOBER WAR HAS BEEN REPLACED BY THE SOVIET UNION. EXACT QUANTITIES AND TYPES OF EQUIPMENT SUPPLIED ARE NOT KNOWN. REPORTS VARY BUT IT IS LIKELY THAT NEARLY ALL OF THE AIRCRAFT, TANKS AND SURFACE-TO-AIR MISSILES LOST HAVE BEEN MADE GOOD AND IN MANY CASES IMPROVED BY LATER MODELS. THE ARRANGEMENTS FOR SUPPLIES OF SOVIET ARMS TO EGYPT APPEAR TO BE UNDER CONSIDERABLE STRESS AT THE PRESENT TIME BECAUSE OF UNCERTAINTIES OVER DELIVERIES. EGYPT HAS ANNOUNCED A DESIRE TO DIVERSIFY ITS SOURCES OF ARMS SUPPLY. OF COURSE, A WIDE DIVERSITY OF EQUIPMENT

WILL LESSEN THE EFFECTIVENESS OF THE EGYPTIAN FORCES, AT LEAST IN THE SHORT RUN. FOLLOWING THE PROME MINISTER OF LIBYA'S VISIT TO MOSCOW, THERE ARE UNCONFIRMED REPORTS THAT THE SOVIET UNION WILL SUPPLY SOME ARMS TO LIBYA, POSSIBLY SURFACE-TO-AIR MISSILES (SA2, SA3, SA7).

14. SOVIET INFLUENCE IN IRAQ CONTINUES LARGELY THROUGH THE CONTINUED SUPPLY OF ARMS. IT IS NOT CLEAR WHETHER THE TU-22 BLINDER AIRCRAFT DELIVERED AT THE TIME OF THE MIDDLE EAST WAR ARE BEING FLOWN BY IRAQI OR SOVIET PILOTS.

15. THERE ARE CONTINUED REPORTS OF SOVIET-SUPPLIED SA7 GRAIL MISSILES REACHING FEDAYEEN HANDS.

SOVIET MILITARY EXPERTS IN EGYPT AND SYRIA

16. IS NOW APPEARS THAT THE SOVIET ADVISERS STATIONED IN EGYPT AND SYRIA WERE NOT WITHDRAWN DURING THE RECENT WAR ALTHOUGH THEIR FAMILIES WERE REPATRIATED. SOME 500-1,000 MILITARY EXPERTS IN EGYPT ARE CURRENTLY REPORTED TO BE TRAINING THE FORCES, OTHERS ARE PRESUMABLY IN EGYPT IN CONNECTION WITH SOVIET WEAPONS SYSTEMS. SOME ARE ALSO PROBABLY ENGAGED IN STUDIES OF THE LESSONS TO BE LEARNED FROM THE EXPERIENCES OF THE WAR. REPORTS ON THE NUMBER OF MILITARY ADVISERS/EXPERTS IN SYRIA VARY FROM 2,500 FROM SOME SOURCES TO A FIGURE OF 800-1,000 SUGGESTED BY ANOTHER.

LESSONS TO BE LEARNED BY NATO FROM THE MIDDLE EAST WAR

17. STUDIES ARE IN PROGRESS, BUT IT IS STILL TOO EARLY AND INFORMATION IS STILL TOO LIMITED TO ATTEMPT TO DRAW ANY DEFINITIVE CONCLUSIONS ABOUT THE LESSONS TO BE LEARNED BY NATO FROM THE RECENT MIDDLE EAST WAR.

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RE-OPENING OF THE SUEZ CANAL

18. WORK ON MINE CLEARANCE IN THE SUEZ CANAL HAS STARTED. IT IS ESTIMATED THAT IT WILL TAKE A YEAR OR MORE TO RESTORE THE CANAL TO ITS 1967 CONDITION, ALLOWING PASSAGE OF SHIPS UP TO 38 FEET (11.8M) DRAUGHT. THE RE-OPENING OF THE CANAL COULD FACILITATE THE RAPID REINFORCEMENT OF THE SOVIET NAVAL PRESENCE IN THE INDIAN OCEAN WHICH HAS MOREOVER BEEN INCREASED IN RECENT YEARS. HOWEVER, THE RE-OPENING OF THE CANAL WILL BE ONLY ONE FACTOR AMONG MANY IN DETERMINING THE SIZE OF THE SOVIET'S PERMANENT INDIAN OCEAN DEPLOYMENT.

C. ECONOMIC

19. IN ISRAEL, A NUMBER OF DIRECT AND INDIRECT TAXES WERE RAISED TOWARDS THE END OF LAST YEAR AND SUBSIDIES, PARTICULARLY FOR FOOD, HAVE BEEN REDUCED BY MORE THAN 1,000 MILLION ISRAELI POUNDS. THIS HAD LED TO A RISE OF MEARLY 40 PERCENT IN THE COST OF

LIVING. ALTHOUGH THE TRADE DEFICIT INCREASED BY 82 PERCENT IN 1973 AND NOW STANDS AT \$1,700 MILLION, CAPITAL TRANSFERS FROM AGROAD ARE EXPECTED TO COVER ISRAEL'S TRADE DEFICIT.

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20. LOOKING AHEAD TO THE RE-OPENING OF THE SUEZ CANAL, EGYPT IS GIVING A SPECIAL PRIORITY TO THE RECONSTRUCTION AND THE REHABILITATION OF THE CANAL ZONE AS A WHOLE AND OF THE SUEZ REFINERIES. THE EGYPTIANS HAVE PLANS TO WIDEN AND DEEPEN THE CANAL IN TWO THREE-YEAR STAGES, BUT IT IS NOT YET CLEAR WHETHER THEY WILL BE IMPLEMENTED. IF SO IMPROVED, THE CANAL WOULD ADMIT SHIPS OF UP TO 67 TO 70 FEET DRAUGHT (APPROXIMATELY 250,000 DWT), BUT LARGER SHIPMENTS VIA THE CAPE ROUTE WOULD STILL BE LESS COSTLY. WITH INCREASED DRY CARGO, THE CANAL MAY CARRY ABOUT TWO-THIRDS OF ITS REP-CLOSURE TRAFFIC. EGYPT HAS ALSO REACHED AN AGREEMENT IN PRINCIPLE WITH THE FEDERAL REPUBLIC OF GERMANY FOR THE IMPLEMENTATION OF THE QUATTARAH DEPRESSION ELECTRIC POWER PLANT CONTRACT AND THE RESUMPTION OF EXPLORATION FOR OIL WITH THE ACTIVE PARTICIPATION OF WESTERN GROUPS, WITH A NUMBER OF ECONOMIC AND FINANCIAL LIBERALIZATION MEASURES, ARE OBVIOUS INDICATIONS OF EGYPT'S HOPES TO DEVELOP ECONOMIC CO-OPERATION

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WITH WESTERN EUROPE, THE UNITED STATES AND JAPAN.

21. FULFILMENT OF SYRIA'S 1971-1975 5 YEAR PLAN, WHICH WAS TO HELP GOVERN THE COUNTRY THE INFRASTRUCTURE IT NEEDS TO ACCELERATE ITS ECONOMIC DEVELOPMENT HAS BEEN SLOWED BY THE WAS SUBSTANTIAL PLEDGES OF AID TO COMPENSATE FOR THE DIRECT AND INDIRECT DAMAGE CAUSED TO SYRIA'S ECONOMY; IN ADDITION THERE HAS BEEN SOME ECONOMIC AID FROM JAPAN AND INDICATIONS OF AID FROM THE UNITED STATES.

22. IN IRAQ, AFTER THE UPHEAVALS CAUSED BY THE NATIONALIZATION OF THE IRAQI OIL INDUSTRY IN 1972, THERE HAS BEEN A MARKED IMPROVEMENT (43 PER CENT) IN THE OIL PRODUCTION IN 1973 WHICH HAS REACHED ON AVERAGE 2.1 MILLION BARRELS (ABOUT 300,00 METRIC TONS) A DAY. THIS WILL ALLOW IRAQ TO ACCELERATE ITS ECONOMIC GROWTH, AND THAT COUNTRY INTENDS TO BUY \$3,300 MILLION WORTH OF EQUIPMENT ABROAD IN 1974. IRAQ IS ALSO DEVELOPING CONTACT WITH WESTERN EUROPEAN COUNTRIES IN ORDER TO DIMINISH ITS DEPENDENCE UPON THE USSR.

23. LIBYA HAS JUST RECENTLY REVISED UPWARDS BY \$500 MILLION THE COST OF ITS 1973-1975 THREE YEAR DEVELOPMENT PLAN ESTABLISHED AT \$7,140 MILLION WITH \$2,500 MILLION SCHEDULED TO BE SPENT IN 1974. IT WILL BE NOTED HOWEVER, THAT THE PLAN PROVIDES FOR THE INVESTMENT OF ONLY \$608 MILLION IN THE OIL SECTOR.

24. INDUSTRIALIZATION IS THE KEYSTONE OF ALGERIA'S DEVELOPMENT PLANNING. IN THE FIRST FOUR YEAR PLAN (1970-1973) IT ABSORBED 42.4 PERCENT OF INVESTMENT ALLOCATIONS. WHILE AGRICULTURE IS OF PRIME IMPORTANCE TO THE BULK OF THE ALGERIAN POPULATION, ON AVERAGE ONLY 15 PERCENT OF TOTAL INVESTMENT ALLOCATION HAS BEEN GOING TO THIS SECTOR. THE SECOND FOUR YEAR PLAN (1974-1977) HAS A PROJECTED DEVELOPMENT EXPENDITURE AMOUNTING TO 54,000 MILLION ALGERIAN

DINARS FOR THE PREVIOUS PLAN FOR WHICH ALGERIA HAD TO HAVE RECOURSE TO FOREIGN LOANS AND AID FOR 25 PERCENT OF ITS TOTAL. IT IS PROBABLE THAT DESPITE THE GREAT INCREASE IN ITS PETROL REVENUES, ALGERIA MIGHT STILL HAVE TO RELY ON FOREIGN LOANS AND AID FOR THE IMPLEMENTATION OF ITS SECOND PLAN.

25. FOR THE OTHER COUNTRIES IN THIS AREA THE MAJOR
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DEVELOPMENT IS THE STEEP INCREASE IN THE PRICE OF PHOSPHATE, WHICH HAS TREBLED FROM \$12/15 TO \$40/45 A TON. THIS WILL HAVE A PARTICULARLY BENEFICIAL EFFECT ON THE MOROCCAN, TUNISIAN AND JORDANIAN TRADE BALANCES. MOROCCO HAS REPORTEDLY REACHED TENTATIVE AGREEMENT WITH MOSCOW TO EXCHANGE SOVIET TECHNOLOGY AND CAPITAL GOODS FOR PHOSPHATES. IF THE AGREEMENT IS IMPLEMENTED, IT WILL MARK A SIGNIFICANT INCREASE IN MOROCCAN-SOVIET TRADE.

THE OIL SECTOR

26. THE CRUDE OIL OUTPUT OF THE ARAB COUNTRIES ACCOUNTS FOR ABOUT ONE-THIRD OF WORLD PRODUCTION, THE LATTER BEING ESTIMATED AT APPROXIMATELY 57.7 MILLION BARRELS/DAY IN 1973 (ABOUT 2,890 MILLION METRIC TONS FOR THE YEAR). EVEN TAKING INTO ACCOUNT THE REDUCTION IN OIL PRODUCTION DECLARED BY ARAB PRODUCER COUNTRIES IN OCTOBER 1973, ESTIMATED SAUDI ARABIAN PRODUCTION DURING 1973 STILL AVERAGED 7.34 MILLION BARRELS (SLIGHTLY MORE THAN 1 MILLION METRIC TONS) A DAY OR SOME 32 PERCENT MORE THAN IN 1973. THIS FIGURE DOES NOT, HOWEVER, TAKE INTO ACCOUNT THE VERY SUBSTANTIAL PRODUCTION INCREASES THAT HAD BEEN FORCAST BUT THAT HAVE BEEN CANCELLED BY PRODUCTION CUTBACKS. FROM 1ST APRIL, SAUDI PRODUCTION CEILING HAS BEEN INCREASED TO 8.5 MILLION BARRELS A DAY (ABOUT 430 MILLION METRIC TONS A YEAR), 2.5 PERCENT HIGHER THAN ITS SEPTEMBER 1973 LEVEL.

27. THE GREAT SIGNIFICANCE OF SAUDI ARABIA AS A PRODUCER LIES IN THE FACT THAT, WITH AT LEAST 25 PERCENT OF THE PROVEN WORLD OIL DEPOSITS, IT IS THE ONLY PRODUCER COUNTRY WITH THE CAPACITY TO SATISFY THE WORLD'S GROWING OIL NEEDS. ANOTHER IMPORTANT ARAB PRODUCER IN THE GULF IS ABU DHABI, WHERE PRODUCTION, DESPITE THE CURRENT CUTBACK IS NOW APPROXIMATELY 1.2 MILLION BARRELS (ABOUT 170,000 METRIC TONS) A DAY AND THEREFORE ALREADY EXCEEDS THAT OF ALGERIA. IT COULD IF OFFICIAL PERMISSION WERE OBTAINED, BE BROUGHT UP TO 3 MILLION BARRELS (ABOUT 428,500 METRIC TONS) A DAY WITHIN A COUPLE OF YEARS. THE FOREGOING DEMONSTRATES THE ROLE THAT THIS COUNTRY, TOGETHER WITH SAUDI ARABIA AND POSSIBLY KUWAIT - WHICH, ON AVERAGE, IN 1973 PRODUCED ABOUT 2.75 MILLION BARRELS (ABOUT 392,00 METRIC TONS) A DAY MIGHT PLAY IN THE PETROLEUM WORLD MARKET BOTH IN THE SHORT AND LONG-TERM. THE SAUDI GOVERNMENT MAY SEEK TO ACCELERATE ACQUISITION OF A CONTROLLING INTEREST IN THE OPERATIONS OF THE
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OIL COMPANIES ON ITS TERRITORY, LIKE KUWAIT, WHICH NOW HAS A 60 PERCENT SHARE IN SUCH OPERATIONS. A SIMILAR AGREEMENT WAS SIGNED IN QATAR BY THE MAJOR CONCESSIONNAIRES ON 20TH FEBRUARY, 1974. NEGOTIATIONS ARE ALSO TAKING PLACE IN ABU DHABI TO INCREASE THE STATE PARTICIPATION WHICH STANDS AT 25 PERCENT.

28. THE EMBARGO ON OIL FOR CERTAIN COUNTRIES IS STILL BEING OFFICIALLY APPLIED AS IS THE DECISION TO REDUCE OIL OUTPUT, ALTHOUGH BY 15 PERCENT NOW AND NOT 25 PERCENT. HOWEVER, SEVERAL ARAB OIL EXPORTING COUNTRIES HAVE BEEN INCREASING PRODUCTION WHICH HAS EITHER PRACTICALLY REACHED ITS SEPTEMBER 1973 LEVEL OR EVEN EXCEEDED IT. THE ONLY TWO NOTABLE EXCEPTIONS ARE KUWAIT AND LIBYA WHERE PRODUCTION IS STILL BETWEEN 15 AND 20 PERCENT BELOW THE PRE-CUTBACK FIGURES. THE MOST DIFFICULT PROBLEM FACING ALL IMPORTING COUNTRIES IS THE FANTASTIC RISE IN THE POSTED PRICES OF A BARREL OF OIL WHICH, DEPENDING ON THE PRODUCING COUNTRY, NOW RANGE FROM \$11.6 TO OVER \$15. HOWEVER, SINCE THE BEGINNING OF THE YEAR, FOR REASONS THAT REMAIN TO BE EVALUATED, THERE HAS BEEN A CONSIDERABLE DECLINE IN PRICES (ESPECIALLY

FOR SPOT AND SHORT-TERM AGREEMENTS) IN PARTICULAR IN COMPARISON WITH THE PRICES REACHED AT THE AUCTIONS AROUND THE END OF 1973. IN FEBRUARY 1974, SALES WERE BEING MADE AT UNDER POSTED PRICES AND VERY LITTLE OF THE OIL BOUGHT AT EARLIER AUCTION PRICES WAS LIFTED. HOWEVER, AT THIS TIME THERE IS MUCH UNCERTAINTY AS REGARDS FUTURE POSTED PRICES BUT IS IS QUITE CLEAR THAT OIL PRICES WILL REMAIN AT A LEVEL MUCH HIGHER THAN BEFORE OCTOBER 1973. THIS PROCE INCREASE IS SUCH AS TO CREATE SERIOUS PROBLEMS FOR THE BALANCE OF PAYMENTS AND THE ECONOMIES OF ALL THE OUL IMPORTING COUNTRIES AND MORE PARTICULARLY FOR DEVELOPING COUNTRIES.

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29. THE OIL REVENUE OF THE ARAB PRODUCING AND EXPORTING COUNTRIES IS EXPECTED TO BE AT LEAST \$50.000 MILLION IN 1974; SAUDI ARABIA, FOR INSTANCE, WILL PROBABLY BE GETTING \$20,00 MILLION, AS AGAINST SOME \$5,000 MILLION IN 1973.

30. THE PROBLEMS POSED BY THOSE INCREASED REVENUES VARY FROM COUNTRY TO COUNTRY. SUCH REVENUES SHOULD BE ABLE TO BE USED FIRSTLY FOR A GREATER DIVERSITY OF THE ECONOMIES OF THE ARAB OIL EXPORTING COUNTRIES, INABLING THEM TO ALL FROM AN ECONOMY GENERALLY FOUNDED ON MONO-PRODUCTION TO A MORE COMPLEX ECONOMY. HOWEVER, WITH THE EXVEPTION OF IARQ AND ALGERIA, WHOSE NEEDS FOR DEVELOPMENT ARE CONSIDERABLE, IT APPEARS OUT OF THE

QUESTION THAT THE OTHER MAJOR ARAB OIL-PRODUCING COUNTRIES
WOULD BE ABLE TO USE AND INVEST AT HOME THE BULK OF THE
CONSIDERABLE FUNDS THAT WILL BE RECEIVED. IT SEEMS LIKELY THAT
THE OIL-PRODUCING COUNTRIES OF THE GULF, AND PERHAPS LIBYA TOO,
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WHO DISPOSE OF EXCESS LIQUID ASSETS, WILL EXTEND ECONOMIC AID
AND INVESTMENT TO THE LESS FAVORED ARAB STATES. HOWEVER, IT
IS CLEAR THAT EVEN IF SUCH A POLICY WERE FOLLOWED, THE DONOR
COUNTRIES WOULD STILL HAVE INCREASINGLY SIZEABLE LIQUID ASSETS
WHICH THEY WOULD SEEK TO PLOUGH BACK INTO THE WORLD ECONOMY,
PARTICULARLY IN THE UNITED STATES, WESTERN EUROPE AND JAPAN.
IT REMAINS TO BE SEEN WHETHER THE WORLD ECONOMY WILL BE ABLE TO
ABSORB AN INFUX OF CAPITAL WHICH COULD WELL BE ON AVERAGE AS
MUCH AS \$50,000 MILLION EACH YEAR.

31. SOVIET PROPAGANDA ENCOURAGES ARAB EMPLOYMENT OF THE
OIL WEAPON, ALTHOUGH THERE IS NO INDICATION THAT MOSCOW INSTIGATED
ITS USE. IT IS CLEAR THAT THE SOVIETS DERIVE BENEFIT FROM THE
DIFFICULTIES WHICH THE ENERGY CRISIS CAUSES FOR THE WESTERN WORLD.

II. PERSENT TRENDS

A. POLITICAL

32. THE FACT THAT PRESIDENT SADAT HAS, SINCE OCTOBER
WAR, ENJOYED REINFORCED PRESTIGE IS IMPORTANT IN THAT IT GIVES
HIM THE AUTHORITY TO UNDERTAKE NEGOTIATIONS. INDEED, THE
EGYPTIAN PRESIDENT SEEMS TO HAVE DECIDED TO PLAY THE PEACE CARD
AND TO LAUNCH A POLICY OF ECONOMIC RECOVERY IN SEEKING, NOTABLY,
FOREIGN CAPITAL. THE PLANS OF THE AUTHORITIES IN CAIRO TO RE-OPEN
THE CANAL AND TO RECONSTRUCT THAT ZONE CAN BE SEEN IN THIS CONTEXT.
INTER ALIA, THE EVICTION OF MR. HEYKAL AND THE PARDONS GRANTED
TO CERTAIN MEMBERS OF THE SABRY GROUP REFLECT A CLEAR DESIRE
TO TURN SWAR FROM "NASSERISM". PRESIDENT SADAT, WITH GROWING
SELF-CONFIDENCE, IS MOVING AHEAD ON HIS OWN COURSE ALTHOUGH
MANY DIFFICULTIES REMAIN TO BE SURMOUNTED AND SADAT'S POSITION
WILL REMAIN VULNERABLE AS LONG AS THERE IS NO SATISFACTORY PEACE
SETTLEMENT AND NO RAPID ECONOMIC PROGRESS WITH WESTERN ASSISTANCE.

33. SAUDI ARABIA, BECAUSE OF ITS CONSIDERABLE OIL RESOURCES
AND BECAUSE OF THE CLOSE RELATIONSHIP IT NOW MAINTAINS WITH
EGYPT, EXERCISES AN INCREASINGLY IMPORTANT INFLUENCE WITHIN THE
ARAB WORLD. KING FASAL, IN ENDEAVOURING TO ADOPT A MODERATE
ATTITUDE, IS OBVIOUSLY COMPELLED TO MAKE CONCESSIONS TO OTHER
ARAB STATES WHICH TAKE THE HARDEST LINE.

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34. THE SOVIETS DID NOT ATTEMPT TO THWART DIPLOMATIC

EFFORTS TOWARDS THE CONCLUSION OF AN AGREEMENT ON THE DISENGAGEMENT OF FORCES BETWEEN ISRAEL AND EGYPT. DESPITE CERTAIN STATEMENTS BY SOVIET PROPAGANDA, UNTIL NOW THEY CONTINUE TO SUPPORT PEACE NEGOTIATIONS IN THE CONTEXT OF THE GENEVA CONFERENCE. NEVERTHELESS, THEY HAVE BEEN WORRIED RECENTLY ABOUT THE UNFORTUNATE EFFECTS THAT THEIR PRESENT PASSIVE ROLE COULD HAVE ON THEIR PRESTIGE AND INFLUENCE IN ARAB COUNTRIES. IT IS TO COUNTERACT THIS TREND THAT THE USSR DECIDED TO INTENSIFY ITS CONTACT WITH SYRIA. THE COMMUNIQUE AFTER ASSAD'S FIVE DAY VISIT TO THE SOVIET UNION IN MID-APRIL SATISFIED SOME OF THE SOVIET CONCERNS BY EMPHASIZING THAT MOSCOW INTENDS TO PARTICIPATE "IN ALL THE STAGES AND SPHERES OF SETTLEMENTS AIMED AT ESTABLISHMENT OF A JUST AND DURABLE PEACE IN THE MIDDLE EAST". HOWEVER, THERE WAS NOT COMPLETE AGREEMENT BETWEEN THE SYRIANS AND THE SOVIETS DURING THE ASSAD VISIT. IN A FURTHER EFFORT TO STRENGTHEN THEIR RELATIONS WITH DAMASCUS, THE SOVIETS HAVE INCREASED THEIR MILITARY DELIVERIES TO SYRIA BOTH QUANTITATIVELY AND QUALITATIVELY. GIVEN THE COOLING-OFF IN SOVIER-EGYPTIAN RELATIONS, DAMASCUS WILL MORE THAN EVER BE AN IMPORTANT ELEMENT IN THE SOVIETS' POLICY.

35. THE VARIOUS PALESTINIAN ORGANIZATIONS ARE TRYING TO OVERCOME THEIR DIFFERENCES - WHICH ARE STILL CONSIDERABLE - SO AS TO FIND A COMMON POSITION WITH A VIEW TO PARTICIPATION IN THE SOLUTION OF THE ARAB-ISRAELI CONFLICT. MOSCOW CONTINUES TO ENCOURAGE THEIR UNTIEY OVER POLITICAL GOALS. IN THIS EFFORT THE SOVIETS FAVOUR YASSIR ARAFAT'S PALESTINIAN LIBERATION ORGANIZATION WHICH HAS BEEN RECOGNIZED BY PRACTICALLY ALL ARAB COUNTRIES AS THE LEGITIMATE REPRESENTATIVES OF THE PALESTINIAN PEOPLE. FOR HIS PART, THE KING OF JORDAN HAS RECOGNIZED IN HIS SPEECH OF 1ST MAY THAT THE PALESTINIANS COULD BE REPRESENTED BY THE PLO AND NO LONGER SEEMS TO EXCLUDE THE POSSIBLIITY THAT THE LATTER BE GIVEN THE RESPONSIBILITY OF SETTING THE PROBLEMS OF THE OCCUPIED WEST BANK AND THE GAZA STRIP. MOSCOW REMAINS POLITICALLY UNCOMMITTED TO AMY SPECIFIC PALESTINE SOLUTION.

B. MILITARY

SOVMEDRON

36. THE RECENT REDUCTION IN THE STRENGTH OF THE SOVMEDRON
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IMPLIES THAT A MIXED FORCE OF ABOUT 50 SHIPS IS CONSIDERED BY THE SOVIETS TO MEET THEIR PEACETIME NEEDS IN THE AREA. THESE REQUIREMENTS WOULD APPEAR TO BE A SOVIET PRESENCE SUFFICIENT TO MAINTAIN THEIR INFLUENCE ON THE RIPARIAN STATES AND TO MATCH THE PRESENCE OF THE NAVAL FORCES OF NATO COUNTRIES. DURING THE MIDDLE EAST WAR, THE SOVIETS AMPLY DEMONSTRATED THEIR ABILITY TO REINFORCE THE SQUADRON AT SHORT NOTICE. MEDITERRANEAN SHORE FACILITIES WILL REMAIN IMPORTANT AND THE USSR WILL TRY TO GOVERN ITS RELATIONS WITH THE ARABS, ESPECIALLY EGYPT AND SYRIA, SO AS TO RETAIN THE USE OF NAVAL FACILITIES, AT LEAST AT THE LEVEL IT

NOW ENJOYS.

SITUATION ARISING FROM THE RE-EQUIPPING OF EGYPT AND SYRIA

37. THE SOVIET REPLACEMENT OF ARAB EQUIPMENT DESTROYED IN THE MIDDLE EAST WAR WAS TO BE EXPECTED IN ORDER TO MAINTAIN A BALANCE AGAINST THE AMERICAN EQUIPPED ISRAELI FORCES. IT WOULD SEEM THAT THE SOVIETS DO NOT WANT A RENEWAL OF THE WAR BUT THE POSSIBILITY THAT WAR MIGHT OCCUR SHOULD NOT BE LOST SIGHT OF, ESPECIALLY AS LONG AS THERE IS NO DISENGAGEMENT ALONG THE GOLAN FRONT.

RE-OPENING OF THE SUEZ CANAL

38. WHILE THE RE-OPENING OF THE SUEZ CANAL WOULD RESTORE THE IMPORTANCE OF THE RED SEA, THE ATTRACTIONS OF THE INDIAN OCEAN WILL NOT DIMINISH THE IMPORTANCE OF THE MEDITERRANEAN IN SOVIET EYES. AN OPEN SUEZ CANAL WILL AFFORD THE OPPORTUNITY BUT NOT NECESSARILY THE INCENTIVE TO ALTER THE BALANCE OF SOVIET NAVAL DEPLOYMENTS.

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ACTION EUR-25

INFO OCT-01 ISO-00 SS-20 ACDA-19 CIAE-00 PM-07 INR-10 L-03

NSAE-00 PA-04 RSC-01 PRS-01 SP-03 USIA-15 TRSE-00

SAJ-01 NSC-07 NEA-14 IO-14 OIC-04 DRC-01 AF-10 /160 W

----- 109767

P R 311800Z MAY 74

FM USMISSION NATO

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INFO AMEMBASSY ANKARA

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C. ECONOMIC

39 THE YEAR 1974 PROMISES TO BE A TURNING POINT FOR THE

SOUTHERN PART OF THE MEDITERRANEAN BASIN. THE PREVIOUS PLANS CONCERNING THE ECONOMIC SITUATION OF THAT REGION AND ITS DEVELOPMENT PROSPECTS HAVE BEEN COMPLETELY UPSET BY THE EVENTS OF THE LAST QUARTER OF 1973, NAMELY THE CONSIDERABLE INCREASE IN THE PRICE OF OIL (FOUR-FOLD BETWEEN OCTOBER AND DECEMBER) AND THE DETERMINATION OF THE ARAB OIL-PRODUCING COUNTRIES TO PLAY A FAR MORE ACTIVE ROLE BOTH WITHIN THE ARAB WORLD AND IN THEIR FINANCIAL, COMMERCIAL AND ECONOMIC RELATIONS WITH THE INDUSTRIALIZED NON-COMMUNIST WORLD AND THE OTHER DEVELOPING COUNTRIES. IN THIS CONNECTION, IT IS IMPORTANT TO NOTE THAT, ON THEIR PART THE MEMBER STATES OF THE ALLIANCE WHO ARE MEMBERS OF THE COMMON MARKET DECIDED TO OPEN DISCUSSIONS WITH THE ARAB STATES WITH WHOM THEY ARE LINKED BY AN OBVIOUS COMMON SECRET

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INTEREST WITH THE AIM OF, AMONGST OTHER THINGS, ESTABLISHING THOROUGH, LONG-TERM CO-OPERATION WITH THEM. FURTHERMORE THESE COUNTRIES INTEND THAT THIS DIALOGUE BETWEEN THE NINE AND THE ARAB COUNTRIES WILL FACILITATE MIDDLE EAST PEACE EFFORTS AND WILL MESH WITH THEIR OTHER EFFORTS TOWARDS THE SOLUTION IN THE LONG-TERM OF THE WORLD-WIDE ENERGY PROBLEMS.

40. THE RE-OPENING OF THE SUEZ CANAL IN THE NEAR FUTURE IS A POSITIVE FACTOR FOR THE ALLIANCE. THERE IS A DANGER, HOWEVER, THAT THE CONSIDERABLE RISE IN THE PRICE OF OIL MAY SLOW DOWN ECONOMIC GROWTH, INCREASE INFLATIONARY PRESSURES AND HAVE AN ADVERSE EFFECT ON THE BALANCE OF TRADE AND ON THE LEVEL OF EMPLOYMENT.

III. CONCLUSIONS

41. CONSOLIDATION OF THE SOVIET UNION'S POSITIONS IN THE MEDITERRANEAN CONTINUES TO BE A BASIC ELEMENT OF SOVIET POLICY. IN THE POLITICAL SPHERE, A FAVOURABLE EVOLUTION OF THE SITUATION IS VERY MUCH DEPENDENT ON THE PROGRESS OF THE ARAB-ISRAELI NEGOTIATIONS. WHILE IT IS TRUE THAT THESE GOT OFF TO A GOOD START, IT IS CLEAR THAT THE PUTTING-TOGETHER OF AN OVERALL SETTLEMENT WHICH TAKES ACCOUNT OF THE LEGITIMATE INTERESTS OF ALL THE PARTIES CONCERNED (THE PALESTINIANS INCLUDED) STILL HAS TO OVERCOME A LARGE NUMBER OF OBSTACLES. THE ALLIED COUNTRIES, WHILST SUPPORTING THE RESOLUTIONS OF THE SECURITY COUNCIL, SHOULD CONTINUE TO GIVE SUPPORT TO THE EFFORTS MADE TO THIS END. FROM THE MILITARY POINT OF VIEW THE SOVIET POSTURE HAS LARGELY RETURNED TO THE "STATUS QUO ANTE" WITH THE SOVMEDRON, REDUCED IN SIZE TO APPROXIMATELY ITS PRE-WAR STRENGTH, AS THE MAIN SOVIET MILITARY PRESENCE IN THE AREA. BY THE REPLACEMENT OF EQUIPMENT LOST IN THE MIDDLE EAST WAR AND BY THE PRESENCE OF EXPERTS/ADVISERS AND WEAPONS SYSTEMS, THE SOVIETS RETAIN CONSIDERABLE INFLUENCE IN THE ARAB COUNTRIES CONCERNED, ALTHOUGH THIS MAY BE WANING IN EGYPT. THE RE-OPENING OF THE SUEZ CANAL WOULD IMPROVE THE SOVIET CAPABILITY TO REINFORCE THEIR NAVAL PRESENCE IN THE RED SEA/INDIAN OCEAN AREA BUT WILL NOT ALTER THE IMPORTANCE

OF THE MEDITERRANEAN TO THEM. THE ALLIED COUNTRIES MUST ENSURE
THAT DEQUATE MILITARY FORCES ARE MAINTAINED IN THE AREA.
IN THE ECONOMIC FIELD, ALL THE ALLIED COUNTRIES SHOULD DETERMINE,
THROUGH APPROPRIATE CONSULTATIVE EFFORTS, HOW BEST TO
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DIMINISH THE IMPACT ON THEIR ECONOMIES AS A WHOLE OF THE
ARAB DECISIONS ON OIL SUPPLIES. IN PARTICULAR, ALL NECESSARY
MEASURES SHOULD BE TAKEN TO DEVELOP ALTERNATIVE ENERGY SOURCES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 11 JUN 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 31 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ATO03043
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: n/a
From: NATO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740587/abbryvhh.tel
Line Count: 771
Locator: TEXT ON-LINE
Office: n/a
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 15
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: USNATO 2975
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 05 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 APR 2002 by cunninfx>; APPROVED <13 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REPORT TO THE NATO MINISTERS ON SITUATION IN THE MEDITERRANEAN (MED REPORT)
TAGS: ENGR, PFOR, FR, NATO
To: STATE
SECDEF INFO ANKARA
ATHENS
LONDON
MOSCOW
PARIS
ROME

USDOCOSOUTH
USNMR SHAPE
USCINCEUR

Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005